

J E I

R E P O R T

A Two-Part Report: A and B

NO. 17B
May 1, 1992

	G-7 Pressures Japan On Economy	1
	Sagging Share Prices Cast Cloud Over Japanese Banks	3
IN THIS ISSUE:	Japan Agrees To Transfer Aircraft Navigational Technology	5
	Peru Presents Dilemma For Japan	6
	Notes: Car Export Quota	8

G-7 Pressures Japan On Economy

In late April the world got two glimpses of Japan's new role on the world economic policymaking stage. Japanese analysts sometimes have complained in the past that their nation has not had the attention it deserves in international forums. Such attention definitely was not lacking April 26 as the finance ministers and central bankers of the Group of Seven industrial nations met in Washington. The G-7's focus on Japan followed a meeting on the other side of the Pacific a few days earlier in which Japanese officials had dealt a blow to the idea that Japan seldom takes the initiative in international meetings. They pushed, albeit unsuccessfully, for measures that they hoped would reinvigorate the stalled Uruguay Round of multilateral trade negotiations.

The communique issued at the end of the longer-than-scheduled G-7 session avoided direct mention of Japan but was unmistakable in its signal that Tokyo take strong countermeasures, beyond those already announced, to strengthen both its currency and its economy. The meeting occurred at a time when the weakness of the Japanese stock market was a hot topic in America's news media and even on Capitol Hill, where Federal Reserve Board chairman Alan Greenspan had assured an April 17 congressional hearing that the U.S. economy was not seriously threatened by depressed Japanese equity prices. In addition, American analysts have worried that the weakness of the Japanese economy itself could pose problems for the fragile American economic recovery. However, that linkage often has been exaggerated (see *JEI Report* No. 15B, April 17, 1992).

diplomatic notes that established the flow-back concept, concurs that this is only a portion of what Japan could be doing. Mr. Rubinstein has suggested, however, that the U.S. side also could be doing a better job of identifying the specific technologies in which it is interested.

The P-3C navigational technology actually is the second such transfer that Tokyo has approved. Last December KHI agreed to share another P-3C innovation — engine equipment that provides electricity to the aircraft's radar. KHI's design evidently operates more reliably and does not require as much oil as the original Lockheed-developed system. Defense officials have indicated that the Pentagon is reviewing as many as four additional technology transfer requests.

Barbara Wanner

Peru Presents Dilemma For Japan

President Alberto Fujimori's April 5 actions suspending democracy in Peru presented that country's neighbors and allies with a difficult decision. While recognizing the serious problems Peru faces, ranging from the Maoist Shining Path guerrillas to government corruption, few, if any, concerned governments endorsed Mr. Fujimori's actions. Instead, foreign capitals have taken steps intended to press the Peruvian president to restore democracy immediately. Washington responded April 6 by suspending new aid to Peru and urging coordination by donor nations to impress upon Lima that aid and other economic support will be withheld until democratic institutions are reestablished. Japan, which promised Peru significant new development assistance last month, describes its stance on aid to Lima as "open," a position that some have questioned.

The 1990 election of Mr. Fujimori, the first ethnic Japanese to be elected head of a country other than Japan, raised Peru's profile in Japan. Tokyo promised Peru a \$4.5 million grant during Mr. Fujimori's July 1990 preinaugural trip to Japan but conditioned additional assistance on Lima's adoption of an economic reform plan and fulfillment of the international financial community's demands (see *JEI Report No. 27B*, July 13, 1990).

Since Mr. Fujimori came to office, Japan and the United States have been among Peru's largest donors. In 1990 Tokyo extended nearly \$40 million in official development assistance to Lima, half of which was provided in the form of financial grants (see Table). This was followed in 1991 by \$26 million in grant assistance as well as a \$400 million loan committed and almost completely disbursed last December. The loan, co-financed by the Inter-American Development Bank, was intended to cover commodity import payments and bolster Peru's Trade Adjustment Program.

Japan's Official Development Assistance to Peru, 1986-90

(in millions of dollars, net disbursement basis)

	Grants		Loans	Total
	Grant Aid	Technical Cooperation		
1986	\$7.6	\$14.5	\$10.2	\$32.3
1987	13.6	18.3	5.7	37.6
1988	7.5	19.3	1.6	28.4
1989	6.1	19.7	2.1	27.9
1990	20.4	19.1	0.4	39.8

Source: Ministry of Foreign Affairs

Japan's most recent pledge to assist Peru came during President Fujimori's mid-March trip to Tokyo. At that time the Japanese government announced a package of \$100 million worth of yen loans as well as nonproject grant assistance totaling ¥3.5 billion (\$26 million at ¥135=\$1.00). Ministry of Foreign Affairs spokesman Masamichi Hanabusa said that the package also included technical training in Japan for 500 Peruvian engineers; the first trainees are scheduled to arrive this year. Citing Peru's progress in controlling inflation and imposing economic discipline, Mr. Hanabusa noted: "Peru's efforts deserve strong support, and since their president is a Japanese Peruvian, there is a great deal of interest in Peru and in the success of President Fujimori's efforts among the Japanese people." The Japanese government considers Peru "a model for economic and political reform in Latin America" and wants to support the Fujimori government, Mr. Hanabusa added.

Japanese officials called Mr. Fujimori's April 5 decision to disband Peru's parliament, imprison opposition leaders and suspend the constitution "a regrettable setback," adding that Japan "strongly desires that the situation quickly return to normalcy and that [Mr. Fujimori's] reform efforts be continued in accordance with the democratic process." Tokyo initially indicated, however, that it did not intend to suspend aid to Peru immediately but would watch developments there.

The Foreign Ministry's Mr. Hanabusa noted that Tokyo would take into consideration international reactions, including that of the Organization of American States, in deciding the aid issue. At an April 13 ad hoc meeting of the OAS the foreign affairs ministers of the member countries passed a resolution strongly deploring events in Peru and calling for the immediate reestablishment of democratic institutional order there. Japan was among the observers at this meeting. Soon after, Mr. Hanabusa indicated that the Japanese government was studying the OAS resolution while continuing to watch developments in Peru. Questioned by the press about the implications of Japan's position on aid to Peru, Mr. Hanabusa asserted, "The objective of our assistance is to help the Peruvian people, not the government as such." Lack of a decision was not a decision in itself, he said, noting, "We have not decided not to stop assistance, nor have we decided to stop it."

Mr. Hanabusa acknowledged that Mr. Fujimori's actions "posed a dilemma for Japan," but he added that Tokyo was watching the Peruvian people's response to the president's timetable for the restoration of democracy since, "It is first and foremost up to the Peruvian people to decide how their democratic principles should be put into practice." While Japan supports movement toward democracy, he added, "It is a question of how to do so." Press reports noted that the Foreign Ministry called President Fujimori's April 21 announcement of plans to return to constitutional rule in stages over the year ahead an "important step toward normalization."

In Washington the months-long timetable met with greater wariness. Department of State officials said that the leader's schedule for a series of referenda and votes, while an improvement over earlier proposals, "would still leave Peru without constitutional processes for nearly a year." By some estimates \$13 billion of U.S. economic and military aid to Peru has been put on hold since April 5. In addition, Washington reportedly has urged other nations as well as multilateral financial institutions to make clear to Lima that new aid, debt assistance and acceptance of Peru in international economic circles hinge on the restoration of democracy. The economic reforms that had earned Mr. Fujimori praise from various allies are considered unsustainable without foreign aid.

The strict stance toward Mr. Fujimori spearheaded by the United States is in contrast to Japan's measured response to developments in Peru. New guidelines announced a year ago by then Prime Minister Toshiki Kaifu called on the Japanese government to take into consideration military and political policies of a recipient nation — including its stand on the promotion of democracy and on human rights safeguards — before extending foreign aid (see *JEI Report* No. 16B, December 6, 1991). Although the Japanese government has indicated that the principles will be applied on a case-by-case basis, some observers are likely to measure Tokyo's approach to challenging political developments such as those in Peru against these year-old guidelines.

Notes

Car Export Quota - Japan's automotive manufacturers are reviewing their strategies for the U.S. market now that they know how the new 1,650,000-unit ceiling on U.S.-bound car exports during FY 1992 will affect them. As expected (see *JEI Report* No. 12B, March 27, 1992), the Ministry of International Trade and Industry divvied up the new quota by first comparing each exporter's actual shipments in the April 1990-March 1991 and April 1991-March 1992 periods to its allocation under the old 2,300,000-unit cap and then making allowances for U.S. production capabilities and financial health. That formula generally helped second-tier car companies at the expense of Japan's five biggest exporters (see Table).

Unofficial Quota Allocations, FY 1981-FY 1992

(in units)

Exporter	FY 1981- FY 1983 Quota	FY 1984 Quota	FY 1985- FY 1986 Quota	FY 1987 Quota	FY 1988 Quota	FY 1989- FY 1991 Quota	FY 1992 Quota
Toyota Motor Corp.	516,659	551,792	616,900	613,816	612,350	610,350	480,000
Honda Motor Co., Ltd.	348,631	372,338	427,000	424,865	423,850	421,850	320,000
Nissan Motor Co., Ltd.	456,030	487,040	544,500	541,778	540,500	532,500	300,000
Mazda Motor Corp.	159,282	173,468	227,800	226,661	226,100	226,100	200,000
Mitsubishi Motors Corp. (including sales to Chrysler Corp.)	112,584	122,612	195,100	194,125	193,650	193,650	150,000
Isuzu Motors, Ltd. (including sales to General Motors Corp.)	16,800	49,500	120,400	119,798	119,500	124,500	100,000
Fuji Heavy Industries, Ltd.	70,014	76,250	107,600	107,062	106,800	106,800	70,000
Suzuki Motor Co., Ltd. (for sale to General Motors Corp.)	0	17,000	60,700	60,397	60,250	64,250	30,000
Daihatsu Motor Co., Ltd.	0	0	0	11,498	17,000	20,000	0
Total	1,680,000	1,850,000	2,300,000	2,300,000	2,300,000	2,300,000	1,650,000

Financially troubled Isuzu Motors Ltd. and Fuji Heavy Industries, Ltd. received allotments estimated to be larger than their actual FY 1991 shipments, while Suzuki Motor Co., Ltd., the smallest exporter now that Daihatsu Motor Co., Ltd. is out of the American car market, will be able to ship about the same number of cars it did in the year through March. Mazda Motor Corp. also emerged relatively unscathed from the reallocation process, in part apparently because it filled a higher percentage of its quota in FY 1991 (roughly 92 percent) than any other company. In contrast, Toyota Motor Corp., Honda Motor Co., Ltd. and Mitsubishi Motors Corp., which all used 80 percent-plus of their allocation in the recently completed fiscal year, will have to trim exports in the 12 months through March 1993 by about the same relative amount — 6 to 8 percent — as Nissan Motor Co., Ltd., which filled only 61 percent or so of its allotment in FY 1991. In absolute terms Toyota will lose approximately 34,000 units of future supply capability, Honda 20,000 units, Nissan 23,000 units, Mazda 8,000 units and MMC 13,000 units.

The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.